special forces
pension plan

annual report 2002

103-05991/

mission statement

The Special Forces Pension Board will act solely in the interest of stakeholders and Plan sponsors to ensure that the Plan and its assets are managed effectively and efficiently in order to provide a sound financial future for the Plan's beneficiaries and is operated in compliance with legislation and regulations.

The Board will monitor and evaluate its progress on business plan initiatives to ensure that governance, fiduciary and operational responsibilities are met.

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Photo courtesy of Lethbridge Police Association

special forces

pension plan

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Front cover photos: (Top) School Resource Officers, courtesy of Edmonton Police Service, (Bottom) Constable Brian Roberts, courtesy of Medicine Hat Police Service.

Back cover photos: (Top) courtesy of Calgary Police Service, (Bottom) courtesy of Edmonton Police Service.

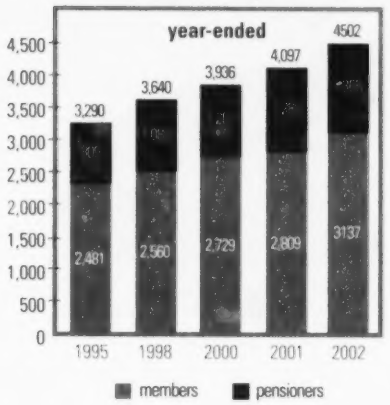
financial highlights

- The market value of the SFPP Fund's assets as of December 31, 2002 was $943 million. This was $68 million less than at year-end 2001.
- SFPP's investment return was -5.9% in 2002. While disappointing, the return was in line with the returns of other Canadian pension funds and about 1% better than the benchmark.
- Contributions made to SFPP in 2002 totaled $35.9 million, up from $34.8 million in 2001. This included $16.3 million from active members, $17.3 million from employers, $2.2 million from the Government of Alberta and $0.1 million in transfers of funds from other plans.
- Payments from SFPP totaled $44.6 million, up from $40.3 million in 2001. Payments included $42.9 million in pension benefits, $0.7 million in refunds to members and transfers, and $1.0 million in Plan administration expenses.
- In 2002, SFPP's total expenses, including funds management and associated custodial fees, averaged $230 per member, compared to $192 per member in 2001. The higher cost reflects SFPP's contribution to the APEX project, increased Alberta Pensions Administration Corporation operating costs, investment management costs and increased plan-specific costs.

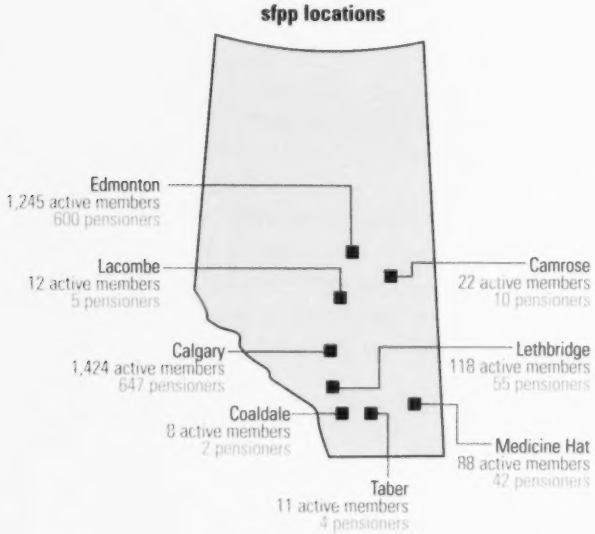
operational highlights

- In 2002 the total of SFPP members (active, deferred and held-on-deposit) increased 4.2% from 2001 to 3,137. The total of SFPP pensioners increased 6% to 1,365.
- Twenty-four SFPP members terminated their employment under SFPP in 2002 prior to being vested.
- Among SFPP pensioners, 22 received a monthly SFPP pension of less than $1,000, 247 received between $1,000 and $1,999 per month, 757 between $2,000 and $2,999 per month, 270 between $3,000 and $3,999 per month, and 69 above $4,000 per month.
- December was the busiest month of visits to the SFPP Web site with 1,443. The lowest month of visits was June with 326.
- The increasing popularity of the SFPP Web site is indicated by the total of 4,095 visits to the site in the last three months of 2002, compared to 1,129 visits in the same period of 2001.
- In a survey of members receiving service from APA in late 2002, 93.5% of responding SFPP members said they were satisfied or very satisfied with the service provided.

total members and pensioners



sfpp locations



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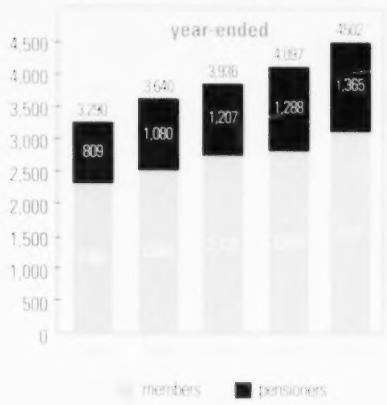
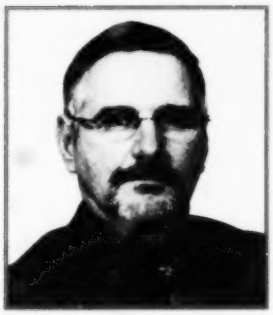


sfpp locations

message from the chair



Randy Garvey, Chair

2002 was a difficult year for capital markets around the world. Consequently, it was a difficult year for SFPP and other pension plans which depend on these markets to generate investment income that pays for a portion of their pension benefits.

Recognizing the potential impact of world events and unstable markets on the Plan, Special Forces Pension Board members met with Plan members, at sessions held across the province in 2002, to describe the funding challenges facing the Plan, answer questions and receive feedback on the topic. As explained at these sessions, for the past couple of years SFPP costs have exceeded contributions, and the shortfall was funded from a small Plan surplus. This shortfall was due to changes in Plan demographics and experience—such as the trend of more members taking early retirement—as well as economic factors like the low inflation rate which increase liabilities. The poor investment performance of the past two years eliminated the Plan's surplus, thereby necessitating a review by the Board of contribution rates and benefit levels.

In November, the Board made the difficult decision to increase contribution rates for employers and active members by 1.3% effective January 1, 2003. The increase was deemed necessary to pay for the Plan's unfunded liability and higher ongoing "current service" costs, as determined by the Board's actuary in an actuarial valuation as at December 31, 2001. The Board understands the financial burden this increase is imposing on active members and employers, but unfortunately higher contributions were essential at this time to ensure the pension promise is maintained.

This annual report presents full details of the Plan's finances and investments in 2002 based on an extrapolation of results from the actuarial valuation. We hope members and other stakeholders will read this report as further opportunity to learn about their Plan. On your behalf, each member of the Board is dedicated to their fiduciary role in ensuring that the best interests of the Plan stakeholders are looked after.

Investment performance

Like pension plans everywhere, SFPP's short-term investment performance has been disappointing, with losses of 5.9% in 2002 and 2.6% in 2001. While this is certainly cause for concern, the Board believes it is important not to overly focus on short-term performance given the long-term nature of the pension promise. On a longer-term basis, SFPP has performed fairly well, generating an annualized return of 8.5% since it was established as a separate fund in 1993. The Board closely monitors and measures the performance of the fund against established benchmarks and in relation to other funds. Relative to these benchmarks, SFPP has outperformed in four of the last five years and six of the past ten years. In 2002, the Plan outperformed its benchmark by 100 basis points, or 1%. The Board continues to believe that the current strategy for investing the fund is appropriate and in the best long-term financial interests of the Plan.

Despite the market downturn, SFPP remains secure and capable of meeting all of its obligations. However, if poor investment performance continues the Board will have to look at a further increase in contributions or reducing benefits. The Board is committed to doing everything possible to deliver benefits as promised and keep contribution rates reasonable and stable.

SFPP will go on the new pension administration system in July 2003.

new pension system

There was good news for SFPP in December as the first stage of a new pension administration system was successfully implemented. The new system will improve the quality and security of service to Plan employers, members and pensioners in the years ahead. SFPP will go on the new system in July 2003. Something members can look forward to later in 2003 is accessing their pension accounts through the SFPP Web site at www.sfpp.ca. You'll be able to check your personal data on file, see your most recent annual statement and do your own estimates based on the salary and service information in your account. Employers will be able to do virtually all of their pension transactions electronically.

board initiatives

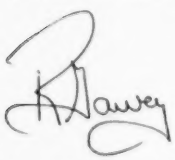
The SFP Board is working with other pension plan boards and the provincial government towards clarifying and improving Plan governance in 2003.

Members will be able to access their pension accounts securely through the Web site.

Recognizing the need to keep current with emerging issues, the Board continued with the development of personal education programs in 2002 for each Board member.

One of the strengths of SFPP is that all Board members work together extremely well towards the common goal of ensuring the Plan is well-funded and delivers pension benefits as promised. While SFP Board members are technically nominated on behalf of employers, employees and the Government of Alberta, the consensus of the Board is that all members will work on behalf of all stakeholders for the betterment of the Plan.

The Board takes this opportunity to thank outgoing board members Janina Vanderpost and David Carpenter for their service to the Plan. Since the last annual report, Linda Sinclair, David Watson and John Hamill have joined the Board. We wish them well in their roles as Board members. This is also our opportunity to express our appreciation to the Investment Management Division of Alberta Revenue, Alberta Pensions Administration Corporation and the Government of Alberta for their continuing support of the Plan.



Randy Garvey
2002 Chair
Special Forces Pension Board

special forces pension board

The Special Forces Pension Board oversees the management of the Plan. Provincial legislation requires the offices of the Board Chair and Vice Chair alternate every two years between employee (police association) and employer nominees. The Board is responsible for setting policy guidelines for the investment and management of the Fund. The Board is also responsible for:

- ensuring current service under the Plan is properly funded;
- setting post-1991 cost-of-living adjustments;
- making appropriate recommendations for amending or repealing and replacing Plan rules; and
- reviewing administration decisions and ensuring the Plan is effectively administered.

sfp board 2002

Colin Catonio

Ulysses Currie

Randy Garvey
Chair

Alex Girvin

John Hamill

Linda Sinclair

David Watson

plan profile

The Special Forces Pension Plan (SFPP) was established in 1979 as a defined benefit pension plan for municipal police officers in Alberta.

The Plan is governed by a seven-member Board that includes three employee nominees, three employer nominees and one crown nominee.

The Plan is financed by member, employer and Government of Alberta contributions and by the investment earnings of the SFPP Fund.

SFPP Fund investments are managed by the Investment Management Division of Alberta Revenue. The Fund has a diversified investment portfolio of bonds, domestic and foreign equity, money market securities, mortgages and real estate.

The Plan is administered by Alberta Pensions Administration Corporation.

Liz Doughty
Recording Secretary

Janet Julé
Investment Advisor

Jim Millard
Board Secretary

management discussion and analysis

Photo courtesy of Coaldale Police Department

	annual returns			
	2002 %	2001 %	2000 %	1999 %
Total Fund	-5.9	-2.6	7.4	16.5
Policy Return	-6.5	-3.4	6.1	15.1
Canadian Consumer Price Index	3.9	0.7	3.2	2.5
Short-Term Fixed Income	2.8	4.9	5.8	5.0
SC 91-Day T-Bill Index	2.5	4.7	5.5	4.7
Fixed Income	9.5	8.7	10.9	-1.0
SC Universe Bond Index	8.7	8.1	10.2	-1.1
Canadian Equities	-10.7	-7.7	16.9	28.8
Canadian Equity Index	-12.7	-12.2	7.4	31.7
United States Equities	-22.4	-6.7	-4.7	12.7
U.S. Equity Index	-23.1	-6.4	-5.8	14.2
Non-North American Equities	-15.9	-16.4	-13.4	41.7
MSCI EAFE Index	-16.8	-16.5	-11.2	20.0
Real Estate	6.2	8.0	7.2	7.4
Russell Canadian Property Index	8.4	10.3	11.8	10.6

	compound annualized returns				
	1yr %	2yr %	3yr %	4yr %	8yr %
Total Fund	-5.9	-4.3	-0.5	3.5	8.4
Policy Return	-6.9	-5.2	-1.6	2.4	8.3
Canadian Consumer Price Index	3.9	2.5	2.7	2.6	2.1
Short-term Fixed Income	2.8	3.9	4.5	4.6	5.2
SC 91-Day T-Bill Index	2.5	3.6	4.2	4.3	4.7
Fixed Income	9.5	9.1	9.7	6.9	9.7
SC Universe Bond Index	8.7	8.4	9.0	6.4	9.6
Canadian Equities	-10.7	-9.2	-1.3	5.5	9.2
Canadian Equity Index*	-12.7	-12.4	-5.2	2.0	7.7
United States Equities	-22.4	-14.9	-11.6	-6.1	8.6
U.S. Equity Index**	-23.1	-15.1	-12.1	-6.1	11.9
Non-North American Equities	-15.9	-16.2	-15.3	-3.6	4.6
MSCI EAFE Index	-16.8	-16.7	-14.9	-7.3	2.0
Real Estate	6.2	7.1	7.1	7.2	9.4
Russell Canadian Property Index	8.4	9.4	10.2	10.3	10.9

* *Effective June 1, 2002 the Canadian Equity benchmark changed from 100% S&P/TSX Capped Composite Index to 87.5% S&P/TSX Composite Index and 12.5% Nesbitt Burns Small Cap Index.*

** *Effective June 1, 2002 the U.S. Equity benchmark changed from 100% S&P 500 Index to 84.2% S&P 500 Index and 15.8% Russell 2500 Index.*

This Management Discussion and Analysis (MD&A), together with the SFPP financial statements, provides an overview of initiatives and achievements during the past year, as well as the outlook for significant developments in 2003 and beyond. The Board recognizes that regularly communicating with all stakeholders in addressing challenges facing the Plan is a key fiduciary responsibility.

investment

SFPP assets are held in trust by the Minister of Finance with the day-to-day management delegated to the Minister of Revenue. Investment Management Division (IMD) of Alberta Revenue is responsible for managing the investments.

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's *Statement of Investment Policies and Goals* (SIP&G). Reviewed annually by the Board, the SIP&G establishes investment principles and guidelines, giving particular consideration to the Plan's provisions, its characteristics and financial obligations. It also defines the management structure and monitoring procedures adopted for the Plan's investments.

Some investments are managed directly (internally) by IMD while others are managed through third-party investment advisors (externally).

The long-term investment expectation is an annualized rate of return, net of all expenses, of 3.75 percentage points in excess of inflation, as measured by the Consumer Price Index. With inflation currently assumed at 3.25%, the required long-term average annual return is 7%.

Investment results in relation to benchmarks

Each product provided by IMD and the overall performance is measured against a clearly defined benchmark. SFPP's policy benchmark is based on the long-term asset mix weightings and publicly available market benchmarks. IMD's performance is measured against the policy benchmark to determine the impact of the manager's decisions. Performance is reviewed quarterly, with an emphasis on one-year and four-year time periods.

In 2002, SFPP lost 5.9% on its investments, which was 100 basis points* better than the policy benchmark. The Plan's annualized return over four years was 3.5% and was 8.4% over eight years.

* *A basis point is a measurement of fluctuation equal to 1/100 of 1% (e.g. 0.1% = 10 basis points).*

overall review

Reflecting fears of an economic slowdown and concerns over corporate governance, global equity markets continued to decline in 2002. Equity markets across the globe experienced their third consecutive negative year. The Canadian, U.S. and EAFE markets were down 12.7%, 23.1%, and 16.8% respectively in 2002. This negative impact on SFPP's total return was partially offset by positive returns from fixed income and real estate.

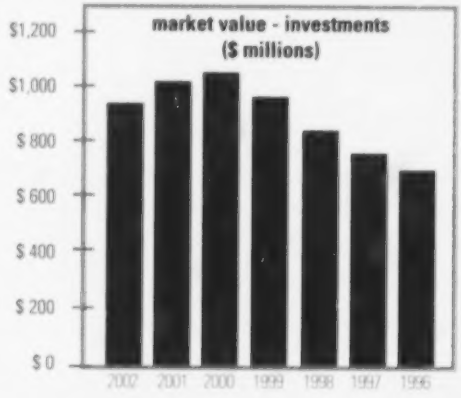
The Plan's negative returns over the last two years should be viewed in the context of longer-term investment experience. The volatility of equity markets has been extreme from a historical perspective. It is important to maintain a steady course through this difficult period. The SFPP asset allocation policy is structured to capture the historically higher rates of return from equities.

	Policy Asset Mix		Actual Asset Mix	
	2002	2001	2002	2001
Fixed Income				
Cash & short-term	1.0%	1.0%	0.6%	1.2%
Long-term	36.0%	36.0%	36.2%	35.2%
Total	**37.0%**	**37.0%**	**36.8%**	**36.4%**
Equities				
Canadian	20.0%	26.0%	20.2%	26.5%
United States	19.0%	16.0%	18.4%	16.3%
International	19.0%	16.0%	19.3%	15.9%
Real Estate	5.0%	5.0%	5.3%	4.9%
Total	**63.0%**	**63.0%**	**63.2%**	**63.6%**

fixed income performance

SFPP's fixed income investments include bonds, mortgages and cash. They are managed internally by IMD.

The Plan's fixed income allocation generally outperformed the respective benchmarks. Bonds and mortgages returned 9.5% versus the ScotiaCapital Bond Universe return of 8.7%. The cash and short-term component had a return of 2.8%, exceeding the 2.5% return of the Scotia Capital 91-Day T-bill Index.



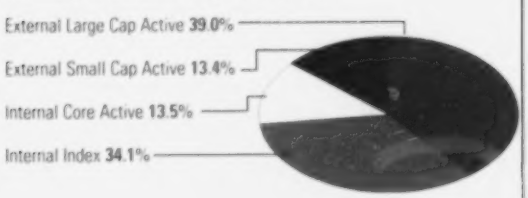
equity performance

canadian equities

SFPP invests in Canadian equities through several strategies, including indexed and active mandates. IMD manages the S&P/TSX enhanced index and core strategies internally. External investment advisors manage the large cap active strategy (investing in companies with a large market capitalization) and the small cap active strategy.

The total Canadian equity return was -10.7% versus -12.7% for the Canadian Equity Index benchmark. The internally managed core product underperformed due to a tilt to underperforming growth stocks. That underperformance was more than offset by outperformance in other areas. A major factor in outperforming the benchmark was the Plan's exposure to small cap companies. Not only did small cap companies perform very well against the large cap segment, but the individual managers outperformed in the small cap segment, beating the Nesbitt Burns Small Cap Index by a significant margin.

summary of canadian equity holdings



Top 10 Canadian Equity Holdings December 31, 2002

Company	%
Royal Bank of Canada	5.6%
Bank of Nova Scotia	4.1%
Toronto Dominion Bank	3.4%
BCE Inc	3.4%
Bank of Montreal	3.2%
Encana	3.0%
Sun Life Financial Services	3.0%
Petro Canada	2.6%
Alcan Inc	2.0%
Barrick Gold Corp	1.8%

foreign equities

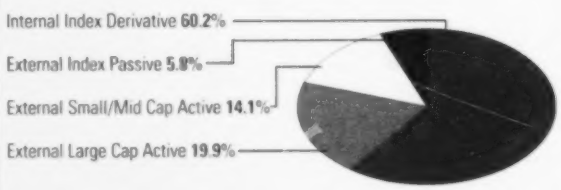
The foreign equity allocation is divided by policy into allocations to the U.S. and to Non-North American equity markets. Within the Non-North American segment, mandates are divided into either regional (e.g. Europe) where the manager invests solely within the region, or multi-regional (e.g. Europe, Australia and Far East) where the manager may invest across the different regions.

u.s. equities

SFPP's investments in the U.S. are allocated approximately 66% to index strategies and 34% to active strategies. A significant portion is invested in the internally managed structured derivative product, which is designed to manage the Plan's exposure to foreign equity relative to the federal *Income Tax Act* 30% foreign property limit. The remainder is allocated to active external managers.

The Plan's U.S. equity exposure returned -22.4%, better than the U.S. Equity Index return of -23.1% (in Canadian dollars). Performance of the externally managed large cap strategies and replication index product detracted from performance. The internally managed index product outperformed. Most of the outperformance can be attributed to the Plan's exposure to small and mid cap companies. These companies outperformed the larger cap segment, and the external manager outperformed the Russell 2500 benchmark by a significant margin.

summary of united states equity holdings


Internal Index Derivative 60.2%
External Index Passive 5.8%
External Small/Mid Cap Active 14.1%
External Large Cap Active 19.9%

Top 10 U.S. Equity Holdings December 31, 2002

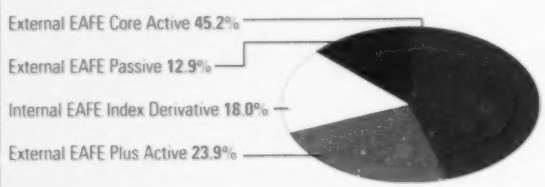
Company	%
Microsoft Inc	2.8%
General Electric Co	2.4%
Eccon Mobil Corp	2.3%
Citigroup Inc	2.2%
Pfizer Inc	2.0%
Wal-Mart Stores	1.9%
American International Group Inc	1.6%
Johnson & Johnson	1.5%
Proctor & Gamble	1.2%
International Business Machines	1.1%

non-north american equities

The Non-North American equity component includes exposure to both developed and—on an opportunistic basis—emerging markets. Thirty-one per cent is index-based, with a portion in a derivative product to manage exposure to foreign equity relative to *Income Tax Act* limits. The remaining exposure is allocated to external active managers.

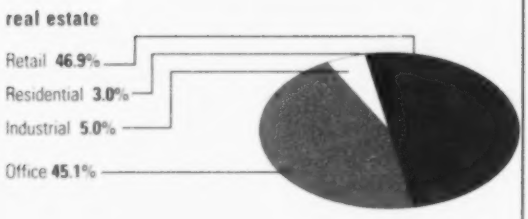
The Plan's Non-North American equity exposure, including emerging markets, returned -15.9% in 2002, compared to the MSCI EAFE Index which returned -16.8% (in Canadian dollars). The internal structured product underperformed during the year. This was offset by the index strategy and, even more so, by the externally managed active component.

summary of non-north american equity holdings


External EAFE Core Active 45.2%
External EAFE Passive 12.9%
Internal EAFE Index Derivative 18.0%
External EAFE Plus Active 23.9%

Top 10 Non-North American Equity Holdings December 31, 2002

Company	%
Vodafone Group	2.9%
Glaxosmithkline	2.5%
Total Fina Elf	2.1%
BP PLC	2.1%
HSBC Holdings	1.9%
ENI	1.8%
UBS AG	1.8%
Novartis AG	1.7%
Nokia Corporation	1.4%
Royal Dutch Petroleum	1.3%



real estate

The real estate component provides diversification relative to the equity and fixed income markets. The Plan's real estate investments are primarily a mix of retail, office and industrial properties in major Canadian urban areas. The focus is on quality, featuring strong locations and tenants.

The real estate return in 2002 was 6.2% versus 8.4% for the Russell Canadian Property Index. The underperformance relative to the benchmark was attributed to an underweight of multi-residential properties and the more conservative nature of the portfolio in terms of its office and retail investments.

board actions to improve investment management

In 2002 the Board reviewed the Plan's investment policies, particularly regarding the risk tolerance of the Plan and ways to manage the inherent volatility of the long-run asset mix. A number of alternative asset classes were considered. On advice received from IMD and third-party consultants, the Board reduced Canadian equities and added foreign equities and real estate investments to enhance the long-term risk return trade-off.

service delivery

new administration system

In December, Alberta Pensions Administration (APA) Corporation's new pension administration system was brought on-stream for three public sector plans. Developed through the Alberta Pensions Excellence (APEX) project, the new system will enhance service to employers, members, pensioners and pension boards.

APA needed to change its systems and technologies in order to more effectively deliver pension administration services to pension plans and to better respond to changes in the pension environment. The final product is an advanced software application that consolidates 19 different business applications.

SFPP will move to the new system in July 2003.

service performance measurements

APA's service performance generally improved during 2002 as a result of hiring additional staff and increased training. Performance standards were lowered in the fourth quarter as staff were redeployed for work required to bring the new system into operation.

Fourth-quarter performance was lower as a result of the legacy system being down for two weeks in November in preparation for the move of some plans to the new system. Also, the processing of retirement options was below standard for the year due to the manual calculations involved in the creation of option packages.

By the end of the first quarter, 50% of 2001 SFPP member annual statements were sent to employers to distribute to members. This was below the standard of 75% due to the timing of employers' year-end reporting. Virtually all of the statements were distributed before the end of the second quarter.

APA's service performance generally improved in 2002 as a result of hiring additional staff and increased training.

plan changes and board initiatives

In line with the requirements of the *Employment Pension Plans Act* (EPPA) of Alberta, APA began providing system-generated termination options packages in April with estimates that give members who leave SFPP before retirement an opportunity to see the dollar values associated with their benefit choices.

more qualifying leave and expanded definition of service

Several changes were made in mid-2002 to comply with the federal *Income Tax Act* provisions regarding pensions. The definition of "service" was broadened. Employment service may be pensionable as long as it is performed in Canada and the employee participated in an employer-sponsored plan. Longer periods of leave became eligible for purchase as pensionable service, and up to three years of parenting leave can be purchased.

sfpp web site visits				
Q4	Q1	Q2	Q3	Q4
2001	2002	2002	2002	2002
1,129	1,215	1,111	2,203	4,095

communications

In 2002 the new SFPP logo was implemented for the Plan's printed and electronic materials. The third annual SFPP newsletter was produced in December and distributed to members and pensioners. There will be additional communication with employers in advance of going on the new system, including workshops and newsletters.

The SFPP Web site was redesigned in 2002 to improve navigation and relevancy of information about the Plan for stakeholders. The most popular feature on the site is the Pension Estimator.

The chart at left shows significantly increased usage of the Web site in the latter part of 2002.

member education and consultations

During 2002, APA conducted six employee seminars for a total of 87 SFPP members. Based on feedback forms, 73% of APA's seminar participants were very satisfied with the seminars and 27% were satisfied. These results indicate a slight increase in the level of attendee satisfaction over the 2001 survey.

service delivery — 2003 developments

The APEX initiative during 2003 will include a review of the pension payroll functionality. If appropriate, APA will migrate from the current mainframe-based pension payroll application to new software in late 2003 or early 2004.

Members will view and print their latest annual statement online.

APEX Web Services for pension plan employers was launched for the first group of participating employers in early 2003. This delivers self-service capability to employers via the Plan Web site using a secure connection.

Going online with the new system will also bring "self-service" to SFPP members. Through a secure connection on the SFPP Web site, members will view and print their last member annual statement, view their current personal information on file, and perform online pension estimates and other calculations based on their actual service and salary data.

SFPP rules will be amended in 2003 to reflect Board recommendations (such as commutation of small pensions) and accommodate changes in practice when the APEX system is implemented for SFPP. Employer roles and responsibilities regarding employer access via the Web will be contractually defined.

plan funding

The government guarantees benefits for SFPP service before 1994, except for post-1991 cost-of-living adjustment (COLA) on 1992 and 1993 service. SFPP benefits for subsequent service are backed by adequate funding of the Plan.

contribution rates

Based on an actuarial valuation as at December 31, 2001, the cost to fund SFPP was 22.37% of total pensionable salary. However, total contributions were 19.75%. Upon the advice of the Plan actuary, the Board recommended these increases to bring total contributions and costs into line.

Effective January 1, 2003 SFPP employer contributions and employee contributions both increased by 1.31 percentage points. The provincial government continues to pay 1.25% of members' pensionable salary towards SFPP's pre-1992 unfunded liability. As this rate is specified in legislation, it is not subject to change without a legislative amendment.

The decline in investments eliminated the Plan's small surplus.

Over the previous two years, the SFP Board used the post-1991 surplus in the SFPP fund to maintain stability of contribution rates. However, the 2001 actuarial valuation determined that there was no longer a surplus due to the decline in investments. The actuary noted that the Plan's funding status had also been affected by low interest rates and changes in experience.

While the SFP Board looks to the long-term in its benefit projections and investments, it regularly consults with its actuary regarding the impact of ongoing changes in demographics and investment performance.

extrapolation as at December 31, 2002

To meet the goal of producing the 2002 SFPP annual report in the first quarter of 2003, the Board directed its actuary to extrapolate financial results from the 2001 valuation to December 31, 2002. Financial statements in this report are based on the extrapolation.

plan funding — 2003 developments

By regulation, the Board has to file an actuarial valuation for funding purposes at least once every three years. The valuation can be conducted and filed for funding purposes earlier if the Board deems it appropriate. If the next actuarial valuation identifies a funding deficiency, the Board will evaluate the actuary's alternatives to re-establish sufficient funding.

The risk of the 27-year-old pension administration system becoming obsolete has been overcome with the new system.

risk management

Currently, the primary risk to the Plan is for market volatility and low investment returns to continue and cause liabilities to exceed assets such that the deficiency could not be eliminated through the recent contribution increases. If this were to occur, the Board would recommend further increasing contributions or reducing benefits. The Board is mitigating the risk of low investment returns and market volatility through its investment strategy.

From an operational perspective, a major risk in recent years for SFPP and other public sector plans has been APA's 27-year-old pension administration system becoming obsolete. This risk is being overcome through the APEX project and the development of a new system.

Implementation of the new system, Web functions and related business cases will increase dependence on the security of data and infrastructure. To mitigate this risk, APA has increased its information technology infrastructure with a blend of internal and contracted resources. An information management initiative encompassing document management, imaging and workflow management commenced in 2002.

risk management — 2003 developments

Work begun in 2002 on data centre renovation, activity-based costing, business resumption planning and improved financial control over contribution collections and benefit assessments and payments will be completed in 2003. APA will also undertake an enterprise-wide risk review in 2003 to be completed in 2004.

financial statements

Photo courtesy of Lethbridge Police Association

management's responsibility for financial reporting

The financial statements and information in the 2002 Annual Report are the responsibility of the Minister of Finance. These responsibilities are undertaken on behalf of the Minister of Finance by the Investment Management Division of Alberta Revenue and Alberta Pensions Administration (APA) Corporation. The financial statements and information in the annual report have been approved by the Board.

The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 2002 Annual Report that relates to the operations and financial position of the Special Forces Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, the Minister of Finance and APA maintain a system of internal accounting controls comprising written policies, standards and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments and financial statements. His examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Peter Kruselnicki, P.Eng.
Deputy Minister of Finance

March 27, 2003

David Smith, CA
Chief Executive Officer
Alberta Pensions Administration Corporation

March 27, 2003

auditor's report

To the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Special Forces Pension Plan (the Plan) as at December 31, 2002 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 20, 2003

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2002
($ thousands)

	2002	2001
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 942,850	$ 1,010,672
Accounts receivable (Note 6)	2,051	1,794
	944,901	1,012,466
Liabilities		
Benefits and refunds	68	10
Net assets available for benefits	944,833	1,012,456
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	61,431	25,188
Actuarial value of net assets available for benefits	1,006,264	1,037,644
Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,201,220	1,098,927
Indexing Fund	9,458	7,245
	1,210,678	1,106,172
Actuarial Deficiency (Note 7)		
Plan Fund*	(204,414)	(68,528)
Indexing Fund	-	-
	$ (204,414)	**$ (68,528)**

* The actuarial deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $149,161,000 (2001 $64,537,000) and a post-1991 deficiency of $55,253,000 (2001 $3,991,000).

See accompanying notes and schedules.

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2002
($ thousands)

	2002	2001
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 942,850	$ 1,010,672
Accounts receivable (Note 6)	2,051	1,794
	944,901	1,012,466
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Indexing Fund	-	-
	$ (204,414)	**$ (68,528)**

* The actuarial deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $149,161,000 (2001 $64,537,000) and a post-1991 deficiency of $55,253,000 (2001 $3,991,000).

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2002

($ thousands)

	2002			2001
	Plan Fund	**Indexing Fund**	**Total**	**Total**
Increase in assets				
Contributions (Note 8)	$ 33,233	$ 2,648	$ 35,881	$ 34,782
Decrease in assets				
Net investment loss (Note 9)	58,501	435	58,936	25,851
Pension benefits	42,883	-	42,883	38,865
Refunds and transfers	668	-	668	631
Administration expenses (Note 10)	1,017	-	1,017	797
	103,069	435	103,504	66,144
(Decrease) Increase in net assets	(69,836)	2,213	(67,623)	(31,362)
Net assets available for benefits at beginning of year	1,005,211	7,245	1,012,456	1,043,818
Net assets available for benefits at end of year	**$ 935,375**	**$ 9,458**	**$ 944,833**	**$ 1,012,456**

See accompanying notes and schedules.

Statement of Changes in Accrued Benefits

For the year ended December 31, 2002

($ thousands)

	2002			2001
	Pre-1992	**Post-1991**	**Total**	**Total**
Increase in accrued benefits				
Interest accrued on benefits	$ 52,497	$ 26,533	$ 79,030	$ 72,161
Net experience losses	22,687	13,980	36,667	-
Benefits earned	180	29,967	30,147	29,262
Cost-of-living indexing adjustments and interest	-	2,213	2,213	2,482
	75,364	72,693	148,057	103,905
Decrease in accrued benefits				
Benefits, transfers and interest	37,333	6,218	43,551	39,496
Net increase in accrued benefits	38,031	66,475	104,506	64,409
Accrued benefits at beginning of year	745,537	360,635	1,106,172	1,041,763
Accrued benefits at end of year (Note 7)	**$ 783,568**	**$ 427,110**	**$ 1,210,678**	**$ 1,106,172**

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2002
($ thousands)

	2002			2001
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Contributions (Note 8)	$ 33,233	$ 2,648	$ 35,881	$ 34,782
Decrease in assets				
Net investment loss (Note 9)	58,501	435	58,936	25,851
Pension benefits	42,883	-	42,883	38,865
Refunds and transfers	668	-	668	631
Administration expenses (Note 10)	1,017	-	1,017	797
	103,069	435	103,504	66,144
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Net assets available for benefits at beginning of year	1,005,211	7,245	1,012,456	1,043,818
Net assets available for benefits at end of year	**$ 935,375**	**$ 9,458**	**$ 944,833**	**$ 1,012,456**

See accompanying notes and schedules.

Statement of Changes in Accrued Benefits

For the year ended December 31, 2002
($ thousands)

	2002			2001
	Pre-1992	**Post-1991**	**Total**	**Total**
Increase in accrued benefits				
Interest accrued on benefits	$ 52,497	$ 26,533	$ 79,030	$ 72,161
Net experience losses	22,687	13,980	36,667	-
Benefits earned	180	29,967	30,147	29,262
Cost-of-living indexing adjustments and interest	-	2,213	2,213	2,482
	75,364	72,693	148,057	103,905
Decrease in accrued benefits				
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Net increase in accrued benefits	38,031	66,475	104,506	64,409
Accrued benefits at beginning of year	745,537	360,635	1,106,172	1,041,763
Accrued benefits at end of year (Note 7)	**$ 783,568**	**$ 427,110**	**$ 1,210,678**	**$ 1,106,172**

See accompanying notes and schedules.

Statement of Changes in Actuarial Deficiency

For the year ended December 31, 2002
($ thousands)

	2002			2001
	Pre-1992	**Post-1991**	**Total**	**Total**
Actuarial deficiency at beginning of year	$ (64,537)	$ (3,991)	$ (68,528)	$ (45,145)
(Decrease) Increase in net assets available for benefits	(70,247)	2,624	(67,623)	(31,362)
Net change in actuarial adjustment for fluctuations in fair value of net assets	23,654	12,589	36,243	72,388
Net increase in accrued benefits	(38,031)	(66,475)	(104,506)	(64,409)
Actuarial deficiency at end of year	**$ (149,161)**	**$ (55,253)**	**$ (204,414)**	**$ (68,528)**

See accompanying notes and schedules.

Statement of Changes in Actuarial Deficiency

For the year ended December 31, 2002

($ thousands)

	2002			2001
	Pre-1992	**Post-1991**	**Total**	**Total**
Actuarial deficiency at beginning of year	$ (64,537)	$ (3,991)	$ (68,528)	$ (45,145)
(Decrease) Increase in net assets available for benefits	(70,247)	2,624	(67,623)	(31,362)
Net change in actuarial adjustment for fluctuations in fair value of net assets	23,654	12,589	36,243	72,388
Net increase in accrued benefits	(38,031)	(66,475)	(104,506)	(64,409)
Actuarial deficiency at end of year	**$ (149,161)**	**$ (55,253)**	**$ (204,414)**	**$ (68,528)**

See accompanying notes and schedules.

December 31, 2002

Note 1 Summary Description of the Plan

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for police officers employed by participating local authorities in Alberta.

(b) Funding Policy

Plan Fund

Current service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2002 were unchanged at 8.30% of pensionable salary for employers and 7.20% for employees. Rates are to be reviewed at least once every three years by the Special Forces Pension Board (the Board) based on recommendations of the Plan's actuary.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2002 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Indexing Fund

Benefit payments are funded by post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) contributions from employers and employees at rates that are expected to meet or exceed the funding or solvency requirements of the Plan. The rates in effect at December 31, 2002 were 0.75% of pensionable salary each for employers and employees. Rates are to be reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

Subject to the Employment Pension Plans Act, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years. The maximum service allowable under the Plan is 35 years. Members are entitled to a pension if they have at least 25 years of service or have at least five years of service and attained age 55. Pensions will be reduced at the age of 65.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member if the member had at least five years of service. Benefits may take the form of a survivor pension, if the beneficiary is a pension partner or a dependent minor child, or a lump sum payment. A surviving pension partner or the beneficiary of a deceased member with less than five years of service is entitled to receive death benefits in the form of a lump sum payment.

(f) Termination Benefits

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest.

(g) Guarantee

Payment of all benefits arising from service before 1994, excluding post-1991 COLA benefits on 1992 and 1993 service (see Note 1 (i)), is guaranteed by the Province of Alberta.

Note 1 Summary Description of the Plan (continued)

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments (COLA)

Pensions payable by the Plan Fund are increased each year by 60% of the increase in the Alberta Consumer Price Index for service before 1992. Cost-of-living adjustments for service after 1991 are payable by the Indexing Fund at rates determined by the Board.

(j) Income Taxes

The Plan is a registered pension plan as defined in the *Income Tax Act* and is not subject to income taxes. The Plan's registration number is 0584375.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

The Plan's percentage ownership in pooled investment funds at December 31, 2002 was as follows:

	% Ownership	
	2002	2001
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	3.6	3.7
Canadian Pooled Equities Fund	1.7	4.2
Domestic Passive Equity Pooled Fund	2.9	4.0
EAFE Structured Equity Pooled Fund	6.8	1.7
Private Equity Pool	6.4	6.4
Private Mortgage Pool	4.2	4.4
Private Real Estate Pool	2.6	3.0
U.S. Passive Equity Pooled Fund	7.1	3.6
United States Pooled Equities Fund	4.5	4.5
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	3.0	2.2
Canadian Small Cap Equity Pool	5.6	6.3
EAFE Core Equity Pool	3.2	2.8
EAFE Passive Equity Pool	3.5	5.1
EAFE Plus Equity Pool	3.2	2.8
U.S. Large Cap Equity Pool	1.8	2.5
U.S. Mid/Small Cap Equity Pool	5.6	2.6
U.S. Passive Equity Pool	0.8	4.1

Note 1 Summary Description of the Plan (continued)

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

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Pensions payable by the Plan Fund are increased each year by 60% of the increase in the Alberta Consumer Price Index for service before 1992. Cost-of-living adjustments for service after 1991 are payable by the Indexing Fund at rates determined by the Board.

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	2002	2001
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Private Equity Pool	6.4	6.4
Private Mortgage Pool	4.2	4.4
Private Real Estate Pool	2.6	3.0
U.S. Passive Equity Pooled Fund	7.1	3.6
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Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	3.0	2.2
Canadian Small Cap Equity Pool	5.6	6.3
EAFE Core Equity Pool	3.2	2.8
EAFE Passive Equity Pool	3.5	5.1
EAFE Plus Equity Pool	3.2	2.8
U.S. Large Cap Equity Pool	1.8	2.5
U.S. Mid/Small Cap Equity Pool	5.6	2.6
U.S. Passive Equity Pool	0.8	4.1

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment value, annual net realized and unrealized gains and losses excluding those arising from derivative transactions are amortized equally over three years commencing at the beginning of the current year.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment loss.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

- Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.
- Interest rate swaps are valued based on discounted cash flows using current market yields.
- Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.
- The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in net investment loss. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

Note 3 Investments (Schedules A to D)

	2002 ($ thousands)	2002 %	2001 ($ thousands)	2001 %
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 6,110	0.6	$ 12,179	1.2
Canadian Dollar Public Bond Pool (b)	300,733	31.9	314,066	31.1
Private Mortgage Pool (c)	40,473	4.3	41,079	4.1
Total fixed income securities	347,316	36.8	367,324	36.4
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (d)	74,363	7.9	38,700	3.8
Canadian Small Cap Equity Pool (d)	25,552	2.7	26,747	2.6
Domestic Passive Equity Pooled Fund (e)	64,962	6.9	106,925	10.6
Canadian Pooled Equities Fund (f)	23,487	2.5	92,237	9.1
Private Equity Pool (g)	2,213	0.2	3,894	0.4
	190,577	20.2	268,503	26.5
United States Equities (Schedule C)				
U.S. Passive Equity Pooled Fund (h)	104,077	11.0	43,085	4.3
External Managers				
U.S. Large Cap Equity Pool (i)	34,380	3.7	56,204	5.5
U.S. Mid/Small Cap Equity Pool (i)	24,434	2.6	8,296	0.8
U.S. Passive Equity Pool (h)	10,035	1.1	57,669	5.7
United States Pooled Equities Fund	33	-	149	-
	172,959	18.4	165,403	16.3
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	82,201	8.7	71,504	7.1
EAFE Plus Equity Pool (j)	43,518	4.6	36,333	3.6
EAFE Passive Equity Pool (k)	23,417	2.5	45,118	4.5
EAFE Structured Equity Pooled Fund (k)	32,660	3.5	6,732	0.7
	181,796	19.3	159,687	15.9
Equities in Real Estate				
Private Real Estate Pool (l)	50,202	5.3	49,755	4.9
Total equities	595,534	63.2	643,348	63.6
Total investments	**$ 942,850**	**100.0**	**$ 1,010,672**	**100.0**

Note 3 Investments (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

Note 3 Investments (Schedules A to D)

	2002		2001	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 6,110	0.6	$ 12,179	1.2
Canadian Dollar Public Bond Pool (b)	300,733	31.9	314,066	31.1
Private Mortgage Pool (c)	40,473	4.3	41,079	4.1
Total fixed income securities	347,316	36.8	367,324	36.4
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (d)	74,363	7.9	38,700	3.8
Canadian Small Cap Equity Pool (d)	25,562	2.7	26,747	2.6
Domestic Passive Equity Pooled Fund (e)	64,962	6.9	106,925	10.6
Canadian Pooled Equities Fund (f)	23,487	2.5	92,237	9.1
Private Equity Pool (g)	2,213	0.2	3,894	0.4
	190,577	20.2	268,503	26.5
United States Equities (Schedule C)				
U.S. Passive Equity Pooled Fund (h)	104,077	11.0	43,085	4.3
External Managers				
U.S. Large Cap Equity Pool (i)	34,380	3.7	56,204	5.5
U.S. Mid/Small Cap Equity Pool (i)	24,434	2.6	8,296	0.8
U.S. Passive Equity Pool (h)	10,035	1.1	57,669	5.7
United States Pooled Equities Fund	33	-	149	-
	172,959	18.4	165,403	16.3
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	82,201	8.7	71,504	7.1
EAFE Plus Equity Pool (j)	43,518	4.6	36,333	3.6
EAFE Passive Equity Pool (k)	23,417	2.5	45,118	4.5
EAFE Structured Equity Pooled Fund (k)	32,660	3.5	6,732	0.7
	181,796	19.3	159,687	15.9
Equities in Real Estate				
Private Real Estate Pool (l)	50,202	5.3	49,755	4.9
Total equities	595,534	63.2	643,348	63.6
Total investments	$ 942,850	100.0	$ 1,010,672	100.0

Note 3 Investments (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

Note 3 Investments (continued)

(d) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(e) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(g) The Private Equity Pool is in the process of orderly liquidation.

(h) The External Managers U.S. Passive Equity Pool and the U.S. Passive Equity Pooled Fund consist of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers U.S. Passive Equity Pool is managed passively by an external manager with expertise in the U.S. equity market and the U.S. Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. To enhance investment returns with no substantial increase in risks, the U.S. Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(i) The External Managers U.S. Large Cap Equity Pool consists of multiple portfolios and the External Managers U.S. Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the U.S. large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index for the U.S. Large Cap Pool and the Russell 2500 Index for the U.S. Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers EAFE (Europe, Australia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(k) The performance objective of the External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Russell Canadian Property Index over the long term. Real estate is held through intermediary companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

Note 4 Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a benchmark policy asset mix of 37% fixed income instruments and 63% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2002:

	2002					2001	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)		($ thousands)	
Equity index swap contracts	68	32	-	$ 168,605	$ 1,125	$ 93,625	$ 3,515
Bond index swap contracts	100	-	-	5,471	47	8,739	4
Interest rate swap contracts	40	48	12	59,952	(3,560)	27,472	(1,221)
Forward foreign exchange contracts	100	-	-	33,679	150	26,396	54
Equity index futures contracts	-	-	-	-	-	2,820	96
				267,707	$ (2,238)	159,052	$ 2,448
Cross-currency interest rate swap contracts (b)	39	30	31	80,659		68,626	
				$ 348,366		$ 227,678	

Note 5 Derivative Contracts (continued)

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

(b) Cross-currency interest rate swaps are valued as a package, which includes underlying securities. As at December 31, 2002, the combined value of cross-currency interest rate swaps and underlying securities amounted to $81,167,000 (2001 $69,034,000).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favorable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

Note 6 Accounts Receivable

	2002	2001
	($ thousands)	
Contributions Receivable		
Employers	$ 905	$ 851
Employees	830	776
Province of Alberta	173	165
	1,908	1,792
Accrued investment income	61	-
Accounts receivable	82	2
	$ 2,051	$ 1,794

Note 7 Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by Hewitt and Associates and was then extrapolated to December 31, 2002. The 2001 valuation was completed after the financial statements of the Plan for 2001 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2001 are accounted for as net experience losses in 2002.

The 2001 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the Plan's actuary, adopted by the Board.

The major assumptions used were:

	December 31	
	2002 Extrapolation	2001 Valuation
	%	%
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost-of-living increase as a percent of Alberta Consumer Price Index	60	60

*In addition to merit and promotion

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

Note 4 Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

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	2002					2001	
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				267,707	$ (2,238)	159,052	$ 2,448
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Note 5 Derivative Contracts (continued)

(e) The method of determining fair value of derivative contracts is described in Note 2 (f).

(f) Cross-currency interest rate swaps are valued as a package, which includes underlying securities. As at December 31, 2002, the combined value of cross-currency interest rate swaps and underlying securities amounted to $81,167,000 (2001 $69,034,000).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favorable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

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(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by Hewitt and Associates and was then extrapolated to December 31, 2002. The 2001 valuation was completed after the financial statements of the Plan for 2001 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2001 are accounted for as net experience losses in 2002.

The 2001 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the Plan's actuary, adopted by the Board.

The major assumptions used were:

	December 31	
	2002 Extrapolation	2001 Valuation
	%	%
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate	3.75	3.75
Pension cost-of-living increase as a percent of Alberta Consumer Price Index	60	60

In addition to merit and promotion

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

Note 7 Accrued Benefits (continued)
(a) Actuarial Valuation (continued)

Based on the information provided, the table summarizes the actuarial value of net assets, accrued benefits, and the resulting actuarial deficiency of the Plan Fund as at December 31, 2002:

	2002			2001
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$ 594,086	$ 341,289	$ 935,375	$ 1,005,211
Actuarial adjustment for fluctuation in fair value of net assets	40,321	21,110	61,431	25,188
Plan Fund actuarial value of net assets available for benefits	634,407	362,399	996,806	1,030,399
Plan Fund accrued benefits	783,568	417,652	1,201,220	1,098,927
Plan Fund actuarial deficiency	**$ (149,161)**	**$ (55,253)**	**$ (204,414)**	**$ (68,528)**

As at December 31, 2002 the Indexing Fund held investments of $9,458,000 (2001 $7,245,000) with offsetting accrued benefits of the same amount.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2002:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency	Increase in Current Service Cost as a % of Pensionable Earnings*
		($ millions)	
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 75.0	0.0%**
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	26.0	1.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	167.0	2.8%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation is 17.2%.
**Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

Note 8 Contributions

	2002	2001
	($ thousands)	
Current and optional service		
Employers	$ 16,033	$ 15,625
Employees	14,934	14,292
Unfunded liability		
Employers	1,324	1,279
Employees	1,324	1,279
Province of Alberta	2,206	2,132
Transfers from other plans	60	175
	$ 35,881	$ 34,782

Note 9 Net Investment Loss

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2002	2001
	($ thousands)	
Deposits and Fixed Income Securities	$ 32,094	$ 29,527
Canadian Equities	(22,374)	(20,229)
Foreign Equities		
United States	(43,145)	(11,170)
Non-North American	(28,525)	(27,663)
Real Estate	3,014	3,684
	$ (58,936)	$ (25,851)

Net investment loss is comprised of the following:

	2002	2001
	($ thousands)	
Net realized and unrealized losses on investments, including those deriving from derivative transactions	$ (93,967)	$ (65,791)
Interest income	25,905	26,367
Dividend income	7,468	11,816
Real estate income	2,631	2,616
Securities lending income	206	174
Pooled funds management and associated custodial fees	(1,179)	(1,033)
	$ (58,936)	$ (25,851)

Note 10 Administration Expenses

	2002	2001
	($ thousands)	
General administration costs	$ 804	$ 587
Investment management costs	190	169
Actuarial fees	23	41
	$ 1,017	$ 797

Note 10 Administration Expenses (continued)

Total administration expenses amounted to $230 per member (2001 $192 per member). Increased business process reengineering (APEX) and operating costs included in general administration costs accounted for the majority of the increase.

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment loss (see Note 9).

Note 11 Remuneration of Board Members

Remuneration paid to or on behalf of board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chairman	Members
Remuneration rates effective April 1, 2002:		
Up to 4 hours	$ 159	$ 118
4 to 8 hours	271	196
Over 8 hours	432	307
	2002	2001
During 2002, the following amounts were paid:		
Remuneration		
Chair	$ 3,370	$ 3,364
Members (5)*	16,044	12,368
Travel expenses		
Chair	2,275	2,045
Members (5)	23,635	19,868

* Crown representative nominated by the Government of Alberta receives no remuneration.

Note 12 Budget Information

The accrued benefits are based on the Board's best estimates of future events after consultation with the Plan's actuary. Differences between actual results and management's expectations are disclosed as net experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

Note 13 Comparative Figures

Comparative figures have been reclassified to be consistent with the 2002 presentation.

Note 14 Responsibility for Financial Statements

These financial statements were prepared by management and approved by the Board.

Note 7 Accrued Benefits (continued)
(a) Actuarial Valuation (continued)

Based on the information provided, the table summarizes the actuarial value of net assets, accrued benefits, and the resulting actuarial deficiency of the Plan Fund as at December 31, 2002:

	2002			2001
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Plan Fund net assets available for benefits	$ 594,086	$ 341,289	$ 935,375	$ 1,005,211
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Plan Fund actuarial value of net assets available for benefits	634,407	362,399	996,806	1,030,399
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Plan Fund actuarial deficiency	**$ (149,161)**	**$ (55,253)**	**$ (204,414)**	**$ (68,528)**

As at December 31, 2002 the Indexing Fund held investments of $9,458,000 (2001 $7,245,000) with offsetting accrued benefits of the same amount.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2002:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency	Increase in Current Service Cost as a % of Pensionable Earnings
		($ millions)	
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 75.0	0.0%**
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	26.0	1.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	167.0	2.8%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation is 17.2%.
**Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

Note 8 Contributions

	2002	2001
	($ thousands)	
Current and optional service		
Employers	$ 16,033	$ 15,625
Employees	14,934	14,292
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Employers	1,324	1,279
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Province of Alberta	2,206	2,132
Transfers from other plans	60	175
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The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

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United States	(43,145)	(11,170)
Non-North American	(28,525)	(27,663)
Real Estate	3,014	3,684
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Net investment loss is comprised of the following:

	2002	2001
	($ thousands)	
Net realized and unrealized losses on investments, including those deriving from derivative transactions	$ (93,967)	$ (65,791)
Interest income	25,905	26,367
Dividend income	7,468	11,816
Real estate income	2,631	2,616
Securities lending income	206	174
Pooled funds management and associated custodial fees	(1,179)	(1,033)
	$ (58,936)	**$ (25,851)**

Note 10 Administration Expenses

	2002	2001
	($ thousands)	
General administration costs	$ 804	$ 587
Investment management costs	190	169
Actuarial fees	23	41
	$ 1,017	**$ 797**

Note 10 Administration Expenses (continued)

Total administration expenses amounted to $230 per member (2001 $192 per member). Increased business process reengineering (APEX) and operating costs included in general administration costs accounted for the majority of the increase.

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	Chairman	Members
Remuneration rates effective April 1, 2002:		
Up to 4 hours	$ 159	$ 118
4 to 8 hours	271	196
Over 8 hours	432	307
	2002	**2001**
During 2002, the following amounts were paid:		
Remuneration		
Chair	**$ 3,370**	$ 3,364
Members (5)*	**16,044**	12,368
Travel expenses		
Chair	**2,275**	2,045
Members (5)	**23,635**	19,868

* Crown representative nominated by the Government of Alberta receives no remuneration.

Note 12 Budget Information

The accrued benefits are based on the Board's best estimates of future events after consultation with the Plan's actuary. Differences between actual results and management's expectations are disclosed as net experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

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Note 14 Responsibility for Financial Statements

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Schedule A

Schedule of Investments in Fixed Income Securities

December 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 7,670	$ 15,093
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	73,282	81,071
Provincial		
Alberta, direct and guaranteed	709	1,098
Other, direct and guaranteed	60,034	72,894
Municipal	5,865	5,418
Corporate	126,866	108,546
Private		
Corporate	69,505	79,724
	336,261	348,751
Receivable from sale of investments and accrued investment income	3,504	3,793
Liabilities for investment purchases	(119)	(313)
	3,385	3,480
	$ 347,316	$ 367,324

(a) Fixed income securities held at December 31, 2002 had an average effective market yield of 5.10% per annum (2001 5.47% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount.

	2002 %	2001 %
under 1 year	2	5
1 to 5 years	34	33
6 to 10 years	32	29
11 to 20 years	13	14
over 20 years	19	19
	100	100

Schedule B

Schedule of Investments in Canadian Equities

December 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 2,014	$ 4,398
Public equities (a) (b)		
Consumer discretionary	16,646	23,810
Consumer staples	8,627	9,870
Energy	27,761	29,790
Financials	52,582	68,882
Health care	6,344	12,170
Industrials	17,676	28,704
Information technology	9,643	29,675
Materials	29,736	33,523
Telecommunication services	8,760	11,993
Utilities	5,807	7,838
	183,802	256,255
Passive index	1,325	3,270
	184,927	259,525
Private equities	1,944	2,723
Receivable from sale of investments and accrued investment income	2,258	3,323
Liabilities for investment purchases	(566)	(1,466)
	1,692	1,857
	$ 190,577	$ 268,503

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $31,936,000 (2001 $47,251,000) which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

Schedule of Investments in United States Equities

December 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 1,307	$ 602
Public equities (a) (b)		
Consumer discretionary	24,039	22,277
Consumer staples	14,790	11,880
Energy	10,265	10,156
Financials	36,220	30,050
Health care	25,364	23,205
Industrials	20,848	19,418
Information technology	24,765	28,856
Materials	5,370	4,759
Telecommunication services	6,153	7,955
Utilities	5,039	5,100
	172,793	163,656
Receivable from sale of investments and accrued investment income	1,070	1,423
Liabilities for investment purchases	(2,211)	(278)
	(1,141)	1,145
	$ 172,959	$ 165,403

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $104,478,000 (2001 $41,748,000), which were used as underlying securities to support the notional amount of U.S. equity index swap contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

Schedule D

Schedule of Investments in Non-North American Equities

December 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 4,136	$ 3,806
Public equities (a)		
Country		
United Kingdom	48,444	39,238
Japan	28,537	26,516
Switzerland	16,044	11,272
France	15,589	17,570
Netherlands	11,435	11,264
Germany	10,262	10,956
Australia	8,387	5,931
Italy	7,171	5,607
Hong Kong	4,839	5,524
Spain	3,961	4,818
Finland	3,524	2,941
Sweden	3,247	3,052
Other	16,723	10,799
	178,163	155,488
Receivable from sale of investments and accrued investment income	1,112	1,730
Liabilities for investment purchases	(1,615)	(1,337)
	(503)	393
	$ 181,796	$ 159,687

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $32,191,000 (2001 $6,441,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps.

Schedule A

Schedule of Investments in Fixed Income Securities

December 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 7,670	$ 15,093
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	73,282	81,071
Provincial		
Alberta, direct and guaranteed	709	1,098
Other, direct and guaranteed	60,034	72,894
Municipal	5,865	5,418
Corporate	126,866	108,546
Private		
Corporate	69,505	79,724
	336,261	348,751
Receivable from sale of investments and accrued investment income	3,504	3,793
Liabilities for investment purchases	(119)	(313)
	3,385	3,480
	$ 347,316	**$ 367,324**

(a) Fixed income securities held at December 31, 2002 had an average effective market yield of 5.10% per annum (2001 5.47% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount.

	2002 %	2001 %
under 1 year	2	5
1 to 5 years	34	33
6 to 10 years	32	29
11 to 20 years	13	14
over 20 years	19	19
	100	**100**

Schedule B

Schedule of Investments in Canadian Equities

December 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 2,014	$ 4,398
Public equities (a) (b)		
Consumer discretionary	16,646	23,810
Consumer staples	8,627	9,870
Energy	27,761	29,790
Financials	52,582	68,882
Health care	6,344	12,170
Industrials	17,676	28,704
Information technology	9,643	29,675
Materials	29,736	33,523
Telecommunication services	8,780	11,993
Utilities	5,807	7,838
	183,602	256,255
Passive index	1,325	3,271
	184,927	259,526
Private equities	1,944	2,723
Receivable from sale of investments and accrued investment income	2,258	3,323
Liabilities for investment purchases	(566)	(1,466)
	1,692	1,857
	$ 190,577	**$ 268,503**

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $31,936,000 (2001 $47,251,000) which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

Schedule of Investments in United States Equities

December 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 1,307	$ 602
Public equities (a) (b)		
Consumer discretionary	24,039	22,277
Consumer staples	14,790	11,880
Energy	10,205	10,156
Financials	36,220	30,050
Health care	25,364	23,205
Industrials	20,848	19,418
Information technology	24,765	28,856
Materials	5,370	4,759
Telecommunication services	6,153	7,955
Utilities	5,039	5,100
	172,793	163,656
Receivable from sale of investments and accrued investment income	1,070	1,423
Liabilities for investment purchases	(2,211)	(278)
	(1,141)	1,145
	$ 172,959	**$ 165,403**

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $104,478,000 (2001 $41,748,000), which were used as underlying securities to support the notional amount of U.S. equity index swap contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

Schedule D

Schedule of Investments in Non-North American Equities

December 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 4,136	$ 3,806
Public equities (a)		
Country		
United Kingdom	48,444	39,238
Japan	28,537	26,516
Switzerland	16,044	11,272
France	15,589	17,570
Netherlands	11,435	11,264
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Other	16,723	10,799
	178,163	155,488
Receivable from sale of investments and accrued investment income	1,112	1,730
Liabilities for investment purchases	(1,615)	(1,337)
	(503)	393
	$ 181,796	**$ 159,687**

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $32,191,000 (2001 $6,441,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps.

glossary

Terms

Active Management Strategies
These strategies have two forms—security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P/TSX Composite Index for Canadian stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

Active Member
A member who is making contributions or, if not making contributions, is on non-contributory leave for up to eight years (including three years of parental leave), on approved disability leave or at the point of maximum pensionable service (35 years).

Asset Mix
The percentage of a plan's assets allocated to the major asset classes (for example, 45% fixed income and 55% equities).

Basis Point
A measurement of fluctuation in the current yield equal to 1/100 of 1%.

Benchmark
A standard against which others are measured. For the purposes of this report, benchmarks are established income indices (listed in percentages) used to measure the health of the Fund's investment returns.

Bond
A promissory note issued by a company or government, which bears a fixed maturity date and rate of return.

Deferred Member
A member who is no longer employed by a Plan employer, has left his/her contributions in the Plan and has yet to choose a pension option.

Emerging Markets
An economy in the earlier stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

Equity
Stock; the ownership interest in a company.

External Manager
A third-party firm contracted to provide investment management services.

Guaranteed Terms – Pension Option
A guaranteed pension is paid for the member's lifetime. If the member dies before the end of the guaranteed period, payments will continue to the designated beneficiary(ies) or estate for the rest of that period.

Joint Life – Pension Option
Pension is payable for the joint lives of the member and the member's nominee (usually the pension partner). Upon the death of the member or the nominee, payments continue to the survivor for his or her life. Payments to the survivor may be lower than the original payment, depending on the member's choice at retirement.

Large Cap
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

Manager Structure
Manager structure refers to the number and mandates given to a plan's investment managers. Manager structures can be built around balanced fund mandates where the manager invests across multiple asset classes (Canadian stocks, Canadian bonds, U.S. and International stocks) or specialty mandates where the manager invests in a single asset class. In the case of a specialty mandate the focus can be very specific such as investing in only Canadian small capitalized companies.

Money Market Securities
Fixed income securities that mature in less than one year. Also known as "cash equivalents" since their marketability and characteristics provide easy liquidity access to ready cash, as needed.

Normal – Pension Option
Pension is paid for member's lifetime. If the member dies before the member's pension partner, a reduced pension is paid to the spouse for as long as he or she lives.

Passive Equity
Equity bought as Toronto Index Participation Units (TIPS), allowing a fund to buy into the top 35 companies on the TSX.

Passive Strategies
These strategies involve investing to replicate the performance of a given market index such as the S&P/TSX for Canadian stocks or managing asset class exposure to match the performance of an established policy asset mix such as 50% S&P/TSX Index and 50% Scotia Capital Markets Bond Universe Index.

Pensioner
A member, surviving pension partner or beneficiary who is receiving a pension from the Plan.

Policy Asset Mix
The distribution of funds among various types of assets broadly grouped into fixed income and equity related instruments that are specified in the Board's investment policy and offer the highest probability of consistently achieving investment objectives within the confines of a predetermined level of risk.

Policy Benchmark
A performance measure for the Fund, which is composed from the long-term asset mix policy and the benchmark indices for each major asset class.

Product
An investment vehicle, such as bonds, cash, money market securities, equities (both domestic and foreign), pooled funds, index funds, etc., offered by an investment manager for the purpose of investing funds to achieve investment goals set out in an investment policy.

Real Rate of Return
The real rate of return is the return achieved by an asset after adjustments for inflation.

Real Return Bond
A fixed income investment product (a bond) whose return is linked to the real interest rate to generate a specified real rate of return. The real interest rate is the nominal (set) interest rate minus inflation. The real rate of return is the return achieved by an asset after adjustments for inflation.

Single Life – Pension Option
Pension is paid for member's lifetime but no payments are made to a beneficiary or estate after the pensioner's death. This option is only available when there is no pension partner or the pension partner waived rights.

Small Cap
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

Statement of Investment Policies and Goals
A policy document set by the Board to establish the asset mix of the Fund, the manner by which the Investment Management Division of Alberta Revenue may invest assets and the specific holding limits for each type of security.

Swap (structured investments)
A contract between two parties to pay the other party the return on an underlying investment.

T-Bill
Short-term government security.

Time-weighted Return
A series of dollar-weighted rates of return designed to reduce the impact of the cashflows on a fund's performance. Since the fund manager usually has little control over the timing of the cashflows, the time-weighted return is used to measure the performance of the fund managers.

Total Return
Measures income (dividend, cash, interest and accrued interest) and capital appreciation (or capital depreciation).

Unfunded Liability
An unfunded liability exists when the actuarial valuation determines that the Fund's accrued liabilities exceed the net assets available for the payment of benefits.

Indices

Consumer Price Index (CPI)
Measures the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

Morgan Stanley Capital International World Index
Measures the total return attributable to the largest capitalized companies on the world's major stock exchanges. Maintained by Morgan Stanley, the index is compiled and reported monthly in local and common currencies.

RT Capital Median Manager
A reference point for measuring Investment Management Division's performance. RT Capital Financial Service Limited conducts surveys of balanced fund managers on a quarterly basis to create the RT Capital Universe. From this, RT Capital Canada determines the median (or middle-ranked) manager. Related Terms: RT Capital (Canada) Financial Services Limited is an independent firm that evaluates and reports on investment performance. A balanced fund is an investment portfolio with a mix of bonds, preferred stocks and common stocks designed to conserve the investor's initial principal, pay current income and achieve long-term growth.

Scotia Capital Markets Universe Bond Index
Measures the total return attributable to bonds. Maintained by ScotiaMcLeod and includes representative bond issues by issuer (Federal, Provincial, Municipal and Corporate) by quality (AAA, AA, A, and BBB) and term (short-, mid-, and long-).

Scotia Capital Markets 91-Day T-Bill Index
Measures the total return attributable to 91-Day T-Bills. Maintained by ScotiaMcLeod.

Standard & Poor's 500 Index
Measures the total return attributable to the 500 largest capitalized companies on U.S. stock exchanges.

S&P/TSX Composite Index
Measures the total return attributable to the 300 largest capitalized companies traded on the TSX. Maintained by the TSX, the index is compiled and reported on a daily basis. The index's composition is adjusted annually.

corporate directory

2003 board members

Employer Nominees
David Watson, City of Calgary
John Hamill, City of Medicine Hat
Randy Garvey (Chair), City of Edmonton

Employee Nominees
Ulysses Currie, Edmonton Police Association
Colin Catonio (Vice Chair), Lethbridge Police Association
Alex Girvin, Calgary Police Association

Crown Nominee
Linda Sinclair

Board Secretary
Jim Millard
Alberta Pensions Administration Corporation

Administrator
Alberta Pensions Administration Corporation

Fund Management
Investment Management Division, Alberta Revenue

Actuary
Hewitt and Associates

Auditor
Auditor General of Alberta

contact board members

Special Forces Pension Board
3rd Floor Park Plaza
10611-98 Avenue
Edmonton, Alberta T5K 2P7

Phone: (780) 427-2782
Fax: (780) 427-1621
Toll-free: 1-800-661-8198

e-mail: sfpp.bd@gov.ab.ca
Web site: www.sfpp.ca

Constable Rick Kohut, courtesy Lacombe Police Service

web site: www.sfpp.ca